

South Central Iowa Solid Waste Agency

**Independent Auditor's Reports
Basic Financial Statements and
Required Supplementary Information
Schedule of Findings**

June 30, 2004

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	<u>Exhibit</u>
Statement of Net Assets	A 8
Statement of Revenues, Expenses and Changes in Net Assets	B 9
Statement of Cash Flows	C 10
Notes to Financial Statements	11-16
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	17-18
Schedule of Findings	19-20
Staff	21

South Central Iowa Solid Waste Agency

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Roger Schletzbaum	Chairperson	Marion County
Mike Beary	Vice-Chairperson	Monroe County
Tom Law	Member	Poweshiek County
Tim Vick	Member	Lucas County
Sara Bixby	Director	
Leslie Sedlock	Office Manager	

Independent Auditor's Report

To the Members of
South Central Iowa Solid Waste Agency:

We have audited the accompanying financial statements of South Central Iowa Solid Waste Agency as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Central Iowa Solid Waste Agency at June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 8, during the year ended June 30, 2004, South Central Iowa Solid Waste Agency adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2004 on our consideration of South Central Iowa Solid Waste Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

ROLAND & DIELEMAN

Certified Public Accountants

September 17, 2004

Management's Discussion and Analysis

South Central Iowa Solid Waste Agency provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Agency's operating revenues increased 31% , or \$440,400, from fiscal 2003 to fiscal 2004.
- The Agency's operating expenses were .5%, or \$6,578, less in fiscal 2004 than in fiscal 2003.
- The Agency's net assets increased 7%, or \$230,937, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The South Central Iowa Solid Waste Agency is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to South Central Iowa Solid Waste Agency's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.

The Statement of Net Assets presents information on the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Agency's operating revenues and expenses, non-operating revenues and expenses and whether the Agency's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Agency's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Agency financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE ASSOCIATION

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Agency's financial position. The Agency's net assets for fiscal 2004 totaled approximately \$3,691,000. This compares to approximately \$3,460,000 for fiscal 2003. A summary of the Agency's net assets is presented below.

Net Assets		
	June 30,	
	2004	2003
Current assets	\$ 1,841,895	1,602,182
Restricted investments	1,171,737	907,747
Capital assets at cost, less accumulated depreciation	2,627,291	2,500,714
Co-op stock	253	253
Total assets	<u>5,641,176</u>	<u>5,010,896</u>
Current liabilities	242,017	84,556
Noncurrent liabilities	1,708,369	1,466,487
Total liabilities	<u>1,950,386</u>	<u>1,551,043</u>
Net assets:		
Invested in capital assets, net of related debt	2,394,370	2,437,018
Restricted	1,171,737	907,747
Unrestricted	124,683	115,088
Total net assets	<u>\$ 3,690,790</u>	<u>3,459,853</u>

Thirty-two percent of the Agency's net assets are restricted for closure and postclosure care. State and federal laws and regulations require the Agency to place a final cover on the landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. The invested in capital assets (65%, e.g., land, buildings, and equipment), less the related debt portion of net asset are resources allocated to capital assets. The remaining net assets (3%) are the unrestricted net assets that can be used to meet the Agency's obligations as they come due.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for gate fees from accepting solid waste and assessments from the residents of the Counties. Operating expenses are expenses paid to operate the landfill. Non-operating revenues and expenses are for interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the year ended June 30, 2004 is presented below:

Changes in Net Assets		
	Year ended June 30,	
	2004	2003
Operating revenue:		
Gate fees	\$ 1,836,589	1,405,291
Other operating revenues	26,994	17,892
Total operating revenues	<u>1,863,583</u>	<u>1,423,183</u>
Operating expenses:		
Salaries	391,042	343,799
Employee benefits	102,925	97,382
Machinery maintenance, labor and parts	22,224	55,059
Oil and gas	54,666	46,081
Long range planning and engineering	47,061	40,529
Site maintenance	36,931	0
Site utilities	16,105	11,678

	Year ended June 30,	
	2004	2003
Office expenses	17,266	12,134
Training and travel	25,934	9,096
Legal and accounting	5,391	6,961
Insurance	35,893	28,630
Closure and postclosure care costs	205,578	310,911
Iowa Department of Natural Resources tonnage fees	183,582	171,715
Depreciation	283,967	225,887
Disposal Fees	161,100	97,750
UBP Reimbursement	0	72,135
Miscellaneous	29,579	96,075
Total operating expenses	<u>1,619,244</u>	<u>1,625,822</u>
Operating income	<u>244,339</u>	<u>(202,639)</u>
Non-operating revenues (expenses):		
Interest income	27,413	36,925
Decrease in value of investments	(40,815)	0
Net non-operating revenue	<u>(13,402)</u>	<u>36,925</u>
Increase in net assets	230,937	(165,714)
Net assets beginning of year	<u>3,459,853</u>	<u>3,625,567</u>
Net assets end of year	<u>\$ 3,690,790</u>	<u>3,459,853</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

Comparison of Current Year to Previous Year Based on Assets, Liabilities, Revenues, and Expenses

The Agency raised landfill tipping fees from \$22 per ton to \$28 per ton on July 1, 2003, the first day of the FYE 2004 fiscal year. Tipping fees had not been modified since fall 1992 and the cash budget prepared by staff showed an increase was needed to more fully fund the reserve funds and to meet projected operating expenses.

A significant change included in the FYE 2004 budget was an increase in Department of Natural Resources (DNR) required deposits to the Closure/Post-closure fund. Although budgeted at \$80,500 in FYE 2003, the Agency's actual deposit that year was \$120,000. FYE 2004 deposits were budgeted at \$268,000 and ultimately amounted to \$297,170, based on a monthly payment of \$4.72 per ton received.

The Agency's General Obligation (G.O.) Investment Fund is a discretionary capital reserve fund intended by the Agency Board to provide needed funds for equipment replacement and cell construction on a scheduled basis. As with the Closure/Post-closure fund, FYE 2004 saw the Agency begin making regular monthly transfers into the G.O. Investment Fund. These transfers were budgeted at \$2.33 per ton (\$132,00 for the fiscal year) but ultimately amounted to \$146,696 based on the quantity of waste received. The payments into the fund were offset by withdrawals to:

- Purchase of a new D6 CAT dozer
- Build and furnish the new Environmental Education Center

Prior to FYE 2004, the payment to the Closure/Post-Closure Fund was completed as one annual transfer and payments to the G.O. Investment Fund, if any, were completed at random. The more formal system for making deposits is needed for the successful implementation of the Agency's investment plan and will result in better availability of funds when needed for future purchases and construction.

Significant variations in financial results and budgetary information

The Agency's FYE 2004 budget included more detailed line-items for landfill operations, replacing a line item titled "General Operating Expense" and funded at \$200,000 in FYE 2003. Some variations between the FYE 2004 budgeted and actual expenditures were a result of efforts to predict expenses for those detailed line-items.

Other expenditures, such as those for tire and white goods disposal and the solid waste surcharge to DNR, were tied directly to the quantity of material received. When deliveries exceeded projections, costs and revenues did also.

The Human Resource Consulting line item includes attorney fees for an ongoing legal action against the Agency. This line item budget of \$15,000 was included strictly as an estimate; actual expenditures were less than half this amount.

The Agency undertook an unbudgeted effort to consider the acquisition of the Poweshiek Transfer Station in early FYE 2004. Although initial evaluations were completed by staff, outside professional assistance was eventually involved. Costs for attorneys and engineers are largely but not entirely captured in line items titled "Diversion Programs Engineering and Consulting" and "Transfer Station Transition." The "Transfer Station Transition" line item also includes implementation costs (e.g., new hardware and scale software consulting, etc.) incurred following a decision to purchase the operation.

Facts, decisions, and conditions expected to effect future financial position and operations

Poweshiek Transfer Station Acquisition

Effective July 1, 2004, the Agency acquired the Poweshiek Transfer Station from Poweshiek County. For FYE 2005, Transfer Station tipping fees remain set at \$46 per ton as a part of the acquisition arrangement. The Agency's internal analysis indicates this tipping fee may be somewhat low. Actual expenditures will be tracked throughout FYE 2005 to determine necessary changes.

As part of the acquisition, the Agency added one part-time and three full-time employees based at the Transfer Station. It also cross-trained two current Landfill operators to serve as back-up Transfer Station operators should additional time be needed.

A majority of Transfer Station costs are being tracked under a separate cost-center budget. However, some items such as Director and Business Manager time (and as a result, salaries) continue to be tracked against the original FYE 2005 Agency budget (landfill plus administration).

The Agency will also make additional deposits to the G.O. Investment Fund to cover future costs to replace Transfer Station equipment. Those deposits are budgeted based on \$3.93 per ton transferred in FYE 2005.

Cell Closure

Throughout the summer of 2004, Agency operations staff worked to install DNR-acceptable final cover on portions of the side slopes of cell A-1. DNR issued a permit amendment in September 2004 accepting that 18 acres had been placed into final closure. No money was withdrawn from the Closure/Post-Closure reserve fund; though some charges were paid for with money withdrawn from the G.O. Investment Fund.

DNR's acceptance of this closure effort should result in lower engineer's estimates of closure costs in the next DNR-required Closure/Post Closure Cost Estimate. Optimally, lower cost estimates will also lead to a reduction in the amount the Agency asks each member county to guarantee as financial assurance and to a reduction in the amount required to be deposited into the Closure/Post-closure Fund.

However, DNR is also beginning rewrites to landfill rules found in Chapter 567-113 of the Iowa Administrative Code. A memo issued early in this process noted DNR's expectation that by summer 2006 all landfills in the state will cease filling airspace it considers inadequately lined per federal RCRA Subtitle D regulations. Airspace (i.e., disposal capacity) in Agency landfill cells A-1 and A-2 is likely to be affected by this expectation. Neither Fox Engineering nor Agency staff can yet determine the amount of airspace at risk nor the effects of that potential loss on future cost estimates.

Summary

FYE 2004 was a year of significant effort and accomplishment for the South Central Iowa Solid Waste Agency. The Agency's financial position remains strong; a portion of the landfill was closed improving overall environmental protection and decreasing future financial demands; and operations were expanded to Poweshiek County with the acquisition of the Transfer Station.

CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact South Central Iowa Solid Waste Agency, 1736 Hwy T17, Tracy, Iowa, 50256.

South Central Iowa Solid Waste Agency
Statement of Net Assets
June 30, 2004

Exhibit A

Assets

Current assets:

Cash	\$ 815,957
Investments	808,641
Receivables:	
Accounts	189,591
Prepaid insurance	<u>27,706</u>
Total current assets	<u>1,841,895</u>

Noncurrent assets:

Restricted investments	1,171,737
Capital assets (net of accumulated depreciation)	2,627,290
Co-op stock	<u>254</u>
Total noncurrent assets	<u>3,799,281</u>

Total assets 5,641,176

Liabilities

Current liabilities:

Accrued expenses	47,708
Salaries and benefits payable	29,388
Current portion of note payable	16,000
Equipment payable	<u>148,921</u>
Total current liabilities	<u>242,017</u>

Noncurrent liabilities:

Note payable	68,000
Landfill closure and postclosure care costs	<u>1,640,369</u>
Total noncurrent liabilities	<u>1,708,369</u>

Total liabilities 1,950,386

Net assets

Invested in capital assets, net of related debt	2,394,370
Restricted for:	
Closure and postclosure care	1,171,737
Unrestricted	<u>124,683</u>

Total net assets \$ 3,690,790

See notes to financial statements.

South Central Iowa Solid Waste Agency
Statement of Revenues, Expenses and
Changes in Net Assets
Year ended June 30, 2004

Exhibit B

Operating revenues:	
Gate fees	\$ 1,836,589
Other operating revenues	<u>26,994</u>
Total operating revenues	<u>1,863,583</u>
Operating expenses:	
Salaries	391,042
Employee benefits	102,925
Machinery maintenance, labor and parts	22,224
Oil and gas	54,666
Long range planning and engineering	47,061
Site maintenance	36,931
Site utilities	16,105
Office expenses	17,266
Training and travel	25,934
Legal and accounting	5,391
Insurance	35,893
Closure and postclosure care costs	205,578
Iowa Department of Natural Resources tonnage fees	183,582
Depreciation	283,967
Disposal fees	161,100
Miscellaneous	<u>29,579</u>
Total operating expenses	<u>1,619,244</u>
Operating income	<u>244,339</u>
Non-operating revenues (expenses):	
Interest income	27,413
Decrease in value of investments	(<u>40,815</u>)
Net non-operating revenues	(<u>13,402</u>)
Change in net assets	230,937
Net assets beginning of year, as restated	<u>3,459,853</u>
Net assets end of year	\$ <u><u>3,690,790</u></u>

See notes to financial statements.

South Central Iowa Solid Waste Agency
Statement of Cash Flows
Year ended June 30, 2004

Exhibit C

Cash flows from operating activities:	
Cash received from gate fees	\$ 1,817,243
Cash received from other operating receipts	26,994
Cash paid to suppliers for goods and services	(636,910)
Cash paid to employees for services	(486,189)
Net cash provided by operating activities	<u>721,138</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(410,544)
Net cash used by capital and related financing activities	<u>(410,544)</u>
Cash flows from investing activities:	
Increase in debt	185,255
Purchase of investments	(241,222)
Interest received	<u>27,413</u>
Net cash used by investing activities	<u>(28,554)</u>
Net increase in cash and cash equivalents	282,040
Cash and cash equivalents beginning of year	<u>533,917</u>
Cash and cash equivalents end of year	\$ <u><u>815,957</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>244,339</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	283,967
Closure and postclosure costs	205,578
Changes in assets and liabilities:	
(Increase) in accounts receivable	(19,346)
Decrease in prepaid insurance	(1,940)
Increase in accrued expenses	762
Increase in salary and benefits payable	<u>7,778</u>
Total adjustments	<u>476,799</u>
Net cash provided by operating activities	\$ <u><u>721,138</u></u>

See notes to financial statements.

South Central Iowa Solid Waste Agency
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

South Central Iowa Solid Waste Agency was formed in 1994 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Agency is to operate the sanitary landfill in Marion County for use by all residents of Marion, Poweshiek, Lucas, and Monroe counties.

The Agency is composed of one representative from each of the four member counties.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, South Central Iowa Solid Waste Agency has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. South Central Iowa Solid Waste Agency has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of South Central Iowa Solid Waste Agency are organized as an Enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Agency applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these

pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents - The Agency considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months. The agency had \$828,843 in an overnight repurchase agreement as of June 30, 2004.

Restricted Investments - Funds set aside for payment of closure and postclosure care costs are classified as restricted.

Capital Assets - Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Buildings and improvements	\$ 25,000
Equipment and vehicles	500

Capital assets of the Agency are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings	20-40
Equipment and vehicles	5-10

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets during the year ended June 30, 2004.

Compensated absences - Agency employees accumulate a limited amount of

earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Agency's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2004.

(2) Cash and Investments

The Agency's deposits in banks at June 30, 2004 were not entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Agency; prime eligible bankers acceptances; certain high rates commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency's investments and cash are categorized to give an indication of the level of risk assumed by the Agency at year end. The three categories of risk are described below.

- Category 1 Investments that are insured, registered or held by the entity or by its agent in the Agency's name.
- Category 2 Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the Agency's name.
- Category 3 Uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the Agency's name.

The Agency's investments and cash equivalents at June 30, 2004 are as follows:

	June 30, 2004		
	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Risk Category</u>
Wells Fargo Cash Investment M.M.	\$ 100,000	\$ 100,000	1
Wells Fargo Cash Investment M.M.	704,774	704,774	2
Wells Fargo Bank Iowa Repurchase Agreements	828,843	828,843	3
Wells Fargo Gov't Obligation	1,175,604	1,175,604	2
Wells Fargo Checking	(12,886)	(12,886)	2

(3) Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Agency is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002, were \$21,731, \$19,279, and \$21,458, respectively, equal to the required contributions for each year.

(4) Capital Assets

A summary of capital assets at June 30, 2004 is as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land and improvements	\$ <u>196,727</u>	<u> </u>	<u> </u>	<u>196,727</u>
Capital assets being depreciated:				
Buildings	458,531	166,429		624,960
Equipment and vehicles	<u>2,558,965</u>	<u>244,115</u>	<u>(69,485)</u>	<u>2,733,595</u>
Total capital assets being depreciated	<u>3,017,496</u>	<u>410,544</u>	<u>(69,485)</u>	<u>3,358,555</u>
Less accumulated depreciation for:				
Buildings	90,255	13,642		103,897
Equipment and vehicles	<u>623,255</u>	<u>270,325</u>	<u>(69,485)</u>	<u>824,095</u>
Total accumulated depreciation	<u>713,510</u>	<u>283,967</u>	<u>(69,485)</u>	<u>927,992</u>
Total capital assets being depreciated, net	<u>2,303,985</u>	<u>126,577</u>	<u>0</u>	<u>2,430,563</u>
Total capital assets, net	\$ <u>2,500,713</u>	<u>126,577</u>	<u>0</u>	<u>2,627,290</u>

(5) Closure and Postclosure Care Costs

To comply with Federal and State regulations, the Agency is required to complete a monitoring system plan and a closure/postclosure plan and to provide funding necessary to effect closure and postclosure, including the proper monitoring and care of the landfill after closure. Environmental Protection Landfill (EPA) requirements have established closure and thirty-year postclosure care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and postclosure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collecting and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total costs would consist of four components: (1) the cost of equipment

and facilities used in postclosure monitoring and care, (2) the cost of final cover (material and labor), (3) the cost of monitoring the landfill during the postclosure period and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based on the cost to purchase those services and equipment currently and is required to be updated annually for changes due to inflation or deflation, technology, or applicable laws or regulations.

These costs for the South Central Iowa Solid Waste Agency have been estimated at \$1,261,200 for closure and \$1,107,000 for postclosure, for a total of \$2,368,200 as of June 30, 2004, and the portion of the liability that has been recognized is \$1,640,369. These amounts are based on what it would cost to perform all closure and postclosure care during the year ended June 30, 2004. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The estimated remaining life of the landfill is 8 years and the capacity used at June 30, 2004 is 80 percent.

Chapter 455B.306(8)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure care accounts to accumulate resources for the payment of closure and postclosure care costs. The Agency has begun accumulating resources to fund these costs and, at June 30, 2004, assets of \$1,171,737 are restricted for these purposes. They are reported as restricted investments and restricted net assets on the Statement of Net Assets.

Also, pursuant to Chapter 567-111.3(3) of the Iowa Administrative Code (IAC), since the estimated closure and postclosure care costs are not fully funded, the Agency is required to demonstrate financial assurance for the unfunded costs. The Agency has adopted a combination of dedicated funds, financial test, local government guarantee and letter of credit.

Financial Assurance - The Agency has demonstrated financial assurance for closure and postclosure care costs as provided in Chapter 567-111 of the Iowa Administrative Code.

Total estimated costs for closure and postclosure care	\$ 2,368,200
Financial assurance instruments	
Letter of Credit for Poweshiek County	\$ 229,268
Lucas County Guarantee	\$ 114,811
Marion County Guarantee	\$ 390,566
Monroe County Guarantee	\$ 97,678
SCISWA Financial Test	\$ 364,140
Local Dedicated Fund	\$ <u>1,171,737</u>
	\$ <u>2,368,200</u>
Amount agency has restricted and reserved for closure and post closure care at June 30, 2004	\$ <u>1,171,737</u>

Chapter 567-111.8(7) of the IAC allows a government to choose the dedicated fund mechanism to demonstrate financial assurance and use the accounts established to satisfy the closure and postclosure care account requirements. Accordingly, the landfill is not required to establish closure and postclosure care accounts in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

(6) Solid Waste Tonnage Fees Retained

The Agency has established an account for restricting and using solid waste tonnage fees retained by the Agency in accordance with Chapter 455B.310 of the Code of Iowa.

(7) Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Agency assumes liability for any deductibles and claims in excess of coverage limitations.

(8) Accounting Change

For the year ended June 30, 2004, the Agency implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Implementation of these statements had no effect on the beginning balances of the Agency.

(9) Long-Term Debt

The Agency has a note with the Iowa Department of Natural Resources for \$84,000. The repayment schedule is for \$16,000 per year at 0% interest. \$20,000 of this loan will be forgiven if certain contractual items take place.

The repayment schedule is as follows:

June 30, 2005	16,000
June 30, 2006	16,000
June 30, 2007	16,000
June 30, 2008	16,000
June 30, 2009	16,000
June 30, 2010	4,000

(10) Equipment Payable

The payable of \$148,921 was for a D-6 dozer which was purchased in May of 2004 and paid for after June 30, 2004.

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Members of South Central Iowa
Solid Waste Agency:

We have audited the financial statements of South Central Iowa Solid Waste Agency as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether South Central Iowa Solid Waste Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Central Iowa Solid Waste Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect South Central Iowa Solid Waste Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their

assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the members and customers of South Central Iowa Solid Waste Agency and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South Central Iowa Solid Waste Agency during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ROLAND & DIELEMAN

Certified Public Accountants

September 17, 2004

South Central Iowa Solid Waste Agency
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

None

South Central Iowa Solid Waste Agency
Schedule of Findings
Year ended June 30, 2004

Findings Related to Required Statutory Reporting:

- I-04-1 Official Depositories - A resolution naming official depositories has been adopted by the Agency. During the year, the maximum amount was not exceeded.
- I-04-2 Questionable Expenses - No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- I-04-3 Travel Expense - No expenditures of money for travel expenses of spouses of Agency officials or employees were noted.
- I-04-4 Board Minutes - No transactions were found that we believe should have been approved in the Agency minutes but were not.
- I-04-5 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Agency's investment policy were noted.
- I-04-6 Solid Waste Fees Retainage - During the year ended June 30, 2004, the Agency used or retained solid waste fees in accordance with Chapter 455B.310 of the Code of Iowa.
- I-04-7 Financial Assurance - The Agency has demonstrated financial assurance for closure and postclosure care costs as provided in Chapter 567-111 of the Iowa Administrative Code.

Total estimated costs for closure and postclosure care	\$ 2,368,200
--	--------------

Financial assurance instruments

Letter of Credit for Poweshiek County	\$ 229,268
Lucas County Guarantee	\$ 114,811
Marion County Guarantee	\$ 390,566
Monroe County Guarantee	\$ 97,678
SCISWA Financial Test	\$ 627,846
Local Dedicated Fund	\$ <u>1,171,737</u>
	\$ <u>2,631,906</u>

Amount agency has restricted and reserved for closure and post closure care at June 30, 2004	\$ <u>1,171,737</u>
---	---------------------

South Central Iowa Solid Waste Agency

Staff

This audit was performed by:

Roger Roland, CPA
Royal Roland, CPA
Edwin Dieleman, CPA